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C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000547

SIPDIS

STATE FOR EUR/CE L. LOCHMAN AND J. LAMORE

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SUBJECT: SLOVAKIA CLAMPS DOWN ON GAS PRICES

Classified By: DCM Keith A. Eddins, for reasons 1.4(a) and (b).

SUMMARY

1. (U) A new law aimed at Slovak natural gas monopoly SPP gives the government a veto over price hikes. The law is the latest installment in a long-running dispute over SPP's attempts to raise consumer gas prices, in which Fico has publicly lambasted SPP's foreign shareholders, who hold management rights to the company. The French and German shareholders and their embassies here have been strangely quiet in the face of this latest action, which may indicate either that there is some private understanding with the government or that they simply see no point in engaging politically. The company is said to be weighing legal or regulatory action in Brussels. End summary.

NEW LAW MAKES PRICE HIKES DIFFICULT

2. (U) The bitter contest between Prime Minister Robert Fico and natural gas monopoly Slovensky Plynarensky Priemysel (SPP) has become even more heated in recent weeks as the government changed corporate law to keep SPP from raising prices to consumers. The new law--drafted, passed, and signed in barely a week--requires public utilities to call a shareholders' meeting in order to change prices. According to existing corporate law, a 52 percent majority is required to pass any measure at a shareholders' meeting. The practical implication for the partially privatized SPP (51 percent of which is held by the National Property Fund) is that the government has a veto over price hikes.

3. (U) The law is seen as a major new development in the long-running battle between the government, vocally led in the press by Fico, and SPP. The gas company has asked for price hikes several times in the past six months to recover the cost of steeply rising gas prices during the first three quarters of 2008. (Gazprom is the sole supplier of gas for SPP.) The requests have requested increases ranging from 16 to 24 percent. In each instance, the network utilities regulator, URSO, has responded to heavy and very public government pressure by denying the request.

BLAMING THE FOREIGN CAPITALISTS

4. (U) Meanwhile, Fico has publicly blasted the company for daring to ask for a price increase. "They should share their profits with the people," he declared at one point, referring to the rich stream of profits the company derives from transiting about 70 percent of the EU's stream of Russian gas

(about 20 percent of the total gas imports of the EU). When the company pointed out that its gas distribution must be independently viable and that cross-subsidies of the kind Fico is demanding are clearly illegal in the EU, Fico grandstanded further. "If they are not satisfied with their billions in profits, then let them sell it back to us," he said in October. Fico cunningly specified that the offer was good for the original 2002 sale price of about \$5.35 billion.

15. (U) If one were to judge only from the public rhetoric, it would be impossible to guess that the government is the majority shareholder in the company, which passes most of its profits through to its three shareholders. Instead, Fico has gone to great lengths to accuse the "foreign shareholders"--E.ON Ruhrgas and GDF Suez--of being greedy. (SPP's sales totaled almost \$3.3 billion in 2007, with profits of about \$730 million.)

JUST ANOTHER POSE?  
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16. (U) Most analysts have chalked up Fico's posturing to populism, saying that he will try to hold prices until the next election, and that he strikes a different tone in private. This attitude has held until recently; the new law casts a somewhat different light on the struggle. The business press, economic think-tanks, and the German Chamber of Commerce in Slovakia have answered swiftly, condemning the new law as an infringement of shareholders' rights and a violation of the purchase agreement, which gave management

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rights to the minority shareholders.

(C) Oddly, though, SPP has been slow to react. It has said only that it is reviewing its options. The French and German embassies here have not been asked for advocacy help, and SPP's lobbyists have told us that there is no chance of swaying Fico politically on this issue. (One source told us that when the subject of SPP was broached in a private meeting, Fico's hands shook and his face turned red with rage.) Apart from legal measures, they say, the only hope is to pursue a competition case in Brussels, on the grounds that Slovak businesses benefit from the artificially low energy prices.

COMMENT: COMBAT...OR KABUKI?  
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(C) The new law may be a clever end-run, possibly a temporary one, around a purchase agreement that grants managerial control to the foreign shareholders. Because the law concerns only utilities regulated by URSO, it carries few direct implications for other foreign investors in Slovakia. It would be reasonable to suppose that the foreign investment community here would be worried, but that does not appear to be the case. There is wide talk of a private agreement despite the public theater; if true, it would not be for the first time. SPP remains curiously passive and uncommunicative, which may indicate either that something is afoot or simply that it sees no money in keeping the public spat going.

(C) It is clear, though, that Fico continues to play on the popular appeal of anti-capitalist rhetoric--a pose he has also struck with respect to the private pension pillar, to the proposed privatization of the Bratislava airport, and to price controls around the Euro transition at the end of this year. To the extent that this posture succeeds--and to date it has succeeded brilliantly--we can expect more of the same.

EDDINS